DOCUMENT RESUME

ED 241 829 CE 800 133

TITLE	Insuring Your Property. The CIRcular: Consumer Information Report 29.
INSTITUTION	Bank of America NT & SA, San Francisco, CA.
PUB DATE	Jun 81
NOTE	5p.; For related documents, see CE 800 121-132.
PUB TYPE	Guides - Non-Classroom Use (055)
EDRS PRICE	MF01 Plus Postage. PC Not Available from EDRS.
DESCRIPTORS	Consumer Education; Guidelines; *Homeowners; *Housing; Inflation (Economics); *Insurance; Insurance Companies; Pamphlets; *Purchasing
IDENTIFIERS	Condominiums; PF Project; *Property Insurance; Rental Property

ABSTRACT

This report presents guidelines to help homeowners, renters, and condominium owners purchase and maintain adequate insurance coverage for their residences and personal property. Types of property coverage discussed include the following: (1) standard policies and exclusions; (2) special programs (earthquake insurance, federal programs for flood-prone and high-crime areas, and the California FAIR Plan for fire insurance and other perils in high-risk areas); and (3) loss recovery (structural loss, personal property loss, and policy limits on recovery). A chart which lists perils covered by six types of standard policies is provided. Guidelines for choosing and maintaining adequate insurance discuss initial amounts of homeowners coverage, inflation guards, condominium coverage, personal property coverage, contents replacement provisions, scheduled articles endorsements, and personal liability coverage. Recommendations on developing a personal insurance program include selecting a plan (choosing a company and an agent), determining costs of coverage and keeping costs down, keeping coverage current for home and personal property, and maintaining and storing property records. Information in this report is current at the time of printing, June 1981, but is subject to change. (DC)

****
* Reproductions supplied by EDRS are the best that can be made *
* from the original document. *
****

The CIRcular™
Consumer Information Report 29

"PERMISSION TO REPRODUCE THIS MATERIAL IN MICROFICHE ONLY HAS BEEN GRANTED BY
Albert J. Dytch
TO THE EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)."

U.S. DEPARTMENT OF EDUCATION
NATIONAL INSTITUTE OF EDUCATION
EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)
This document has been reproduced as received from the person or organization originating it.
Minor changes have been made to improve reproduction quality.
• Points of view or opinions stated in this document do not necessarily represent official NIE position or policy.

Insuring Your Property

ED241829

Your home and personal belongings represent a sizeable asset—that should be insured. In this report: policies for renters and homeowners; how losses are compensated; choosing adequate coverage, and making sure it keeps pace with inflation.

Your home, its furnishings, and your other personal belongings are probably your largest assets. If these items were destroyed, you'd have to spend a considerable amount of money to replace them. So, it makes sense to insure your possessions—in order to receive compensation in case of loss.

Types of Property Coverage

An individual's property is usually insured with a homeowners policy. This is a "package policy," meaning it combines what could be separate policies—for personal property, a house or condominium, and personal liability—into a single, lower-cost policy.

- If you rent, a homeowners policy covers your personal property, including household furnishings and items used away from home—such as clothing, or your luggage while you're on vacation.
- If you own a house, the policy insures the physical structure and improvements such as fences and patios, in addition to personal items.
- If you own a condominium, you're covered for damage to its interior surfaces as well as damage to personal belongings.

Finally, such a policy provides personal liability protection—in case you, a member of your family, or your pet is held responsible for property damage or personal injury to someone outside your family.

STANDARD POLICIES Homeowners insurance comes in six standard policy forms. Four are designed for those who own houses; they're called basic, broad, special, and comprehensive forms—according to the degree of protection provided. Of the other two forms, one applies to condominium owners and one to renters.

Many provisions, conditions, and limitations of these policy forms are the same. The primary difference is the number of perils—such as fire or windstorm—for which your property is insured. The chart on page 2 gives you an idea of the perils covered by different policy forms.

CE 800 133

Note, however, that this report describes coverage in general terms—details of provisions can vary between policies and insurance companies. *Read your policy carefully and check with your agent to find out what's covered and what isn't.*

Exclusions There are some situations where your property may be damaged and you *cannot* collect from your insurance company. Hazards not covered by your homeowners insurance are called exclusions and are specifically listed in your policy. Most policies, for example, exclude windstorm damage to trees and other plants. And you won't receive any payment for property damage caused by sewer backup, power interruption, war, nuclear hazard, or your neglect—not even under the comprehensive form.

SPECIAL PROGRAMS Some of the perils normally excluded by homeowners policies can be insured through separate policies or programs.

Earthquake Insurance This type of insurance is sold as an *endorsement,* or policy addition, to the homeowners package. Cost of coverage depends on your home's construction, whether it's built on fill land, and its location. In California, Imperial County has the highest rates, while the lowest are in the central and north central areas of the state.

Earthquake insurance usually calls for a 5% deductible, which applies separately to your home and its contents. This is costly, compared with the normal $100–$250 deductible for a homeowners policy. However, you should consider earthquake coverage if you live near a fault, especially if your home is made of adobe, concrete, or other rigid material.

Federal Programs The Federal Insurance Administration, U.S. Department of Housing and Urban Development (HUD), oversees federal insurance programs dealing with flood and crime.

You can buy flood insurance if you live in a floodprone area and your community agrees to institute land use control measures to reduce potential flooding. For details, contact your insurance agent, or call HUD's information service at (800) 638-6620.

If you live in a high-crime area and have trouble obtaining theft coverage, you may be eligible for federal crime insurance. It covers losses from burglary and robbery and can be bought in amounts of up to $10,000. For information, call HUD at (800) 638-8780.

The FAIR Plan If you have difficulty obtaining fire insurance, you might get help through the California FAIR Plan. This program provides a basic fire policy to eligible property owners in urban areas and designated hazardous brush areas. Compensation is made on the basis of *actual cash value* at the time of loss—meaning replacement cost minus depreciation (adjustment for wear and tear). You can also buy endorsements for other perils, such as windstorm, vandalism, and earthquake.

The FAIR Plan application can be submitted through an insurance agent. When applying, ask your agent about supplemental coverage for theft and personal liability—areas not covered by the FAIR policy.

LOSS RECOVERY In spite of your precautions, your possessions may be dam-

COPYRIGHT © BANK OF AMERICA NT&SA 1981

PERILS COVERED BY STANDARD POLICIES					
Basic Form (HO-1)	**Broad Form** (HO-2)	**Special Form** (HO-3)	**Tenants Form** (HO-4)	**Comprehensive Form** (HO-5)	**Condominium Owners Form** (HO-6)
House, other structures, and personal property covered for perils 1-9.	House, other structures, and personal property covered for perils 1-15.	House and other structures covered for all perils (1-15 and others not listed) except those specifically excluded. Personal property covered for perils 1-8 and 10-15.	Personal property covered for perils 1-15. Owner's additions and alterations to rental unit covered for perils 1-15, up to 10% of personal property coverage.	House, other structures, and personal property covered for all perils (1-15 and others not listed) except those specifically excluded.	Personal property covered for perils 1-15. Owner's additions and alterations covered for perils 1-15, up to a certain amount.

Key to Perils Covered

1. Fire or lightning
2. Windstorm or hail
3. Explosion
4. Riot or civil commotion
5. Smoke damage
6. Damage by aircraft or vehicles not owned by the insured
7. Vandalism
8. Theft
9. Breakage of glass that's part of the building
10. Falling objects
11. Weight of ice, sleet, or snow
12. Collapse of a building or part of a building
13. Bursting, bulging, burning or cracking of a steam or hot water heating system or water heating appliance
14. Freezing of a plumbing, heating, or air conditioning system or household appliance
15. Damage to electrical wiring, fixtures, or appliances (excluding electronic components such as tubes and transistors) from short circuits or other accidentally generated currents

aged, so it's important to know your policy's *loss recovery formula*—how your payment is calculated if you have a loss.

Homeowners insurance policies pay claims in two ways. One method applies to buildings, such as your house or garage; another method applies to your personal property.

Structural Loss or Damage If your house is damaged or destroyed, the payment you receive from the insurance company is based on your home's replacement cost, meaning what it would cost to repair the damage or replace the house. Replacement cost is determined by the cost of construction materials and wage rates in your area. Not included in the replacement cost estimate is the value of components unlikely to be destroyed, such as land and foundation.

Some policies cover your home for 100% of its replacement cost if you buy the amount of coverage the company specifies. Generally, however, homeowners policies include a potential limit on recovery. They state that you'll be fully compensated for any partial damage to your home only if it's insured for a certain percentage of its replacement cost at the time of loss. This minimum is usually 80%, but some companies require 90% or 100% (ask your agent to be sure).

For example: Your house, which would cost $90,000 to replace, suffers $10,000 of windstorm damage. For a company requiring 80% coverage, you'd have to be insured for at least $72,000 (80% of $90,000) when the damage occurred to collect the full $10,000 for repairs.

If your home is insured for *less* than the required percentage, you'd be paid either a proportion of the replacement cost or the actual cash value of the part damaged, whichever is greater.

Under the first method, your payment would be based on a ratio of the amount of insurance you had at the time of loss, to the amount you should have had. Suppose, for example, that only the roof of your house is damaged, in the amount of $1,500; and you're carrying $48,000 of insurance, instead of $72,000. Your payment would be two-thirds of the loss—or $1,000—because your coverage at the time of loss was two-thirds of what it should have been.

Or, the insurance company could pay you the roof's actual cash value, if that's the greater amount. Suppose, in the situation above, your roof had a useful life of 15 years and was damaged in the third year. You'd receive $1,200—not $1,500—because one-fifth of your roof's useful life was over.

It should be emphasized that your home's replacement cost is not computed by its market value. Replacement cost refers to how much it would cost to reconstruct your house or repair any damage to it. Market value, on the other hand, is what a buyer would be willing to pay for your home; it's based on the condition of your house, the size and location of the lot, and other variables.

Market value does, however, play a part in determining your settlement *if the settlement is made on the basis of actual cash value*. So, if your home's replacement cost is greater than its market value, this could tend to reduce your settlement.

Personal Property Loss or Damage Insurance companies usually pay for damage to personal property on the basis of actual cash value. Remember, this means there's a deduction for wear and tear, so you probably wouldn't receive enough to replace destroyed items with new ones.

Or, you can buy a homeowners policy that pays on the basis of replacement cost (also called contents replacement coverage). With this method, items that are destroyed or damaged are either repaired or replaced with new items of similar quality. (See "Contents Replacement Coverage," page 3.)

Policy Limits on Recovery In addition to insuring your home and its contents, a homeowners policy also covers trees and shrubs, detached buildings, and personal liability claims. Each category of coverage has a limit on how much you can collect for loss or damage. The chart on page 3 shows typical coverage limits.

You should also be concerned about your policy's *sublimits*, which apply to possessions more easily lost or damaged than others. For example, homeowners policies usually limit coverage to $100 on currency and to $500 on stamp collections, boats and outboard motors, and theft of jewelry, watches, and gems. There may also be a $1,000 limit on theft of silverware and guns.

Are You Adequately Covered?

Don't assume that the coverage provided by a standard homeowners policy adequately protects your property. Use it as a base and make adjustments according to what it would cost to replace your belongings.

YOUR HOME As discussed, most homeowners policies state that a house must be insured for a minimum percentage of its replacement cost (not including land and foundation) if the owner is to fully collect for partial losses. If your policy contains this clause, you might consider going beyond the minimum—insuring your home for 100%, rather than 80% or 90% of its replacement cost. The reason is that there's a good chance the replacement cost estimate on which you base your coverage would not be the same as the replacement cost estimate on which your insurance company would base its settlement if a loss occurred.

One reason for this is inflation: costs of

construction materials and labor are rising by as much as 10% a year. Another reason is that there's no standard method or source for estimating replacement cost. Even appraisals can vary by 10%–20%. By insuring your home for 100% of its replacement cost, you're allowing for differences between your estimate and that of the insurance company.

In calculating the amount of coverage to buy, don't rely solely on your insurance agent's estimate. Remember: The burden of proper insurance is on you. To be on the safe side, get a second opinion. (For methods of figuring your home's replacement cost, see "Keeping Coverage Current," page 4.)

Inflation Coverage Because of rapid increases in construction costs, you should consider including *inflation guard* coverage in your homeowners insurance. With this provision, the face value of your policy is automatically increased to reflect rises in replacement costs.

There are several ways this increase can occur. Some provisions raise coverage by a set percentage—1%–3%—per quarter. Or, it may rise by a set percentage a year—say, 8%—which is prorated by month. Some companies offer increases on a continual basis, according to increases in construction costs. This last method is best, because it gives you some assurance that home replacement costs aren't rising faster than your coverage.

Condominium Coverage If you buy a homeowners policy for your condominium, consider whether the amount provided for "owner's additions and alterations" is enough to cover improvements you've made. The standard amount of coverage is $1,000.

The condominium association's policy should be examined as well. You may find, for example, that fire coverage is limited to exterior surfaces only, leaving unit owners to cope with more extensive damage. There's also a question of whether the association policy provides enough coverage to take care of major repairs; if it doesn't, you and other owners would have to pay for any repairs that exceeded the policy limit. To protect yourself, you can buy a *loss assessment* endorsement. This is an addition to your homeowners policy that covers you if the association policy falls short and you're assessed damages.

When you buy condominium insurance, the agent you deal with may look at the association policy. However, a homeowners agent is not necessarily knowledgeable in this insurance area. If you have questions about what the association policy does and doesn't cover, consult a qualified attorney.

PERSONAL PROPERTY If your policy covers a house, your personal property is normally insured for 50% of the coverage on your house (some companies are reducing this to 40%). If you have an inflation guard provision, the coverage on your possessions will increase as the coverage on your house increases, to maintain the percentage.

To find out whether your coverage is adequate, take an inventory of your possessions. An inventory points out the value of items you might undervalue or overlook entirely: kitchen goods, clothing, and lawn furniture, for example. It's also an efficient way of locating high-value articles—those that should be insured individually. If you're a renter or a condominium owner, such a listing is even more important, because the value of your personal possessions determines the amount of insurance you buy. (For details on how to compile an inventory, see "Your Personal Property," page 4.)

If you find that your belongings are underinsured, you can increase the overall amount of personal property coverage. This can be done without affecting limits of other categories. You can also buy contents replacement coverage or insure specific items with a *scheduled articles endorsement.*

Contents Replacement Coverage With a contents replacement provision, you're paid for the cost of replacing lost or destroyed items with new items of similar quality. If an item is damaged, the insurance pays for the cost of repair, without a deduction for depreciation. However, if you choose not to replace an item, you're usually paid only its actual cash value.

Before buying this insurance, read the policy carefully. There are usually limits on the amount you can be paid to replace an item—no more than 400% of its actual cash value, for example—and the insurance company may choose to have a damaged article repaired rather than replaced if that costs less.

Scheduled Articles Endorsement This is purchased as an addition to the homeowners policy. It lists certain property items and a value for each. If an item is lost or destroyed, the amount listed is paid.

This endorsement is used to cover articles subject to policy limits (like stamp collections). It's also for items of such high value that coverage on your personal property—usually 50% of coverage on your house—wouldn't cover loss of several such items (antiques, for example).

A scheduled articles endorsement is *all risk,* meaning it covers all perils except those specifically named. No deductible applies, but the insurance company might not renew your coverage if you file a number of small claims. Before being issued this endorsement, you may be asked for applicable receipts, bills of sale, or appraisals.

Note that articles stored in a safe deposit box at your financial institution usually are not insured—by your homeowners policy or by the financial institution. You can insure these items by listing them on a scheduled articles endorsement.

PERSONAL LIABILITY The $25,000 personal liability coverage provided by many homeowners policies is inadequate. Because legal action is being used more often to resolve disputes and because the size of court settlements is increasing, some companies are automatically writing $100,000 of liability coverage. And, it's not uncommon for homeowners to request amounts of $200,000 or $300,000.

STANDARD AMOUNTS OF INSURANCE

Property Covered	Basic Form (HO-1)	Broad Form (HO-2)	Special Form (HO-3)	Comprehensive Form (HO-5)	Tenants Form (HO-4)	Condominium Owners Form (HO-6)
House and attached structures	Based on replacement cost of buildings				10% of personal property coverage on owner's additions/alterations	$1,000 on owner's additions/alterations
Detached buildings	10% of coverage on house				No coverage	
Personal property	50% of coverage on house				Based on value of property	
Trees, plants, shrubs	5% of coverage on house (up to $500 per item)				10% of personal property coverage (up to $500 per item)	

Your Insurance Program

SELECTING A PLAN Once you've estimated the value of your property and have a general knowledge of the kinds of insurance available to protect it, you're ready to start shopping for insurance.

When comparing policies, make sure you understand the provisions of each and how they apply to your possessions. Consider cost, but remember: Low cost is not the only reason for choosing a plan; you must also weigh the amount of protection you get for your money.

Which Company? *Best's Insurance Reports—Property/Liability* is a publica-

tion that rates insurance companies according to financial stability. But this may be helpful only if you're dealing with a small company, because the large ones generally have "excellent" ratings.

Another approach is to check consumer publications, which sometimes publish evaluations based on service and/or rates. Also, ask your friends about their experiences with buying homeowners policies and filing claims.

Finally, however, it's the insurance agent who's your main contact with a company and the key to the quality of coverage and service you receive.

Which Agent? Finding a good insurance agent may not be easy. Ask your friends, your attorney, and your banker if they can refer you to competent agents. If you're satisfied with your automobile insurance, ask whether the agent also handles homeowners policies.

Look for a person who's receptive to your needs—who's willing and able to explain coverages, conditions, and exclusions. Your homeowners agent should make sure you understand your policy and should keep you informed of new coverages and services.

COST OF COVERAGE Your homeowners policy will, of course, cost more if you buy $100,000 of coverage instead of $60,000. And, the more protection a policy provides, the higher its cost; for example, a comprehensive policy costs more than a basic policy. Including an inflation guard provision or a scheduled articles endorsement will also increase your premium, and you'll pay 10%–15% higher rates for contents replacement coverage.

Insurance costs vary from one company to another. One reason is that a company's rates for a given geographical area are determined largely by its "loss experience" in that area—the amount of money spent over a given period to settle claims. Different companies—or the same company at different times—have different loss experiences.

Another cost factor is your property's risk rating. This takes into consideration proximity and efficiency of your fire department, your nearness to an adequate water supply, and construction of your home (brick, for example, is more fire resistant than wood).

Keeping Costs Down One way you can keep insurance costs from getting out of hand is to choose, with your agent's help, the policy form that most clearly fits your needs. The comprehensive form, for example, covers many more perils than the broad form, but it also costs considerably more.

When buying insurance, check the plans of at least three companies, comparing rates and coverages. Find out if your employer or organizations you belong to offer group policies, which usually cost less than individual policies.

You can also reduce your premium by taking a higher deductible. By raising the deductible from $100 to $250, you can generally save up to 10%. By setting your deductible at $500, you could save as much as 30%. Keep in mind that you can deduct an uninsured property loss over $100 if you itemize on your federal income tax return. But, at the same time, your deductible should be one you can handle comfortably if you do suffer a loss.

Ask your agent about possible discounts. Your rate might be reduced if you install a fire or burglar alarm, for example. If you rent, your insurance company may offer a nonsmoker's discount. Also, be aware that filing small claims, just over the deductible limit, adds to the company's expense. As a result, your premium may be increased or your policy may not be renewed.

KEEPING COVERAGE CURRENT If your homeowners policy is not with a company that automatically covers your home for 100% of its replacement cost, review your coverage every year to make sure you still have enough. Periodically, adjust the value of scheduled articles. You might also want to check your premiums against those of comparable plans if there have been policy or rate changes.

To be certain your property coverage is still adequate, you must know the value of your possessions. With your home, this evaluation is normally a once-a-year event; with your personal property, it's an ongoing process.

Your Home Figure your home's replacement cost annually and update your coverage as needed. There are a number of methods you can use to arrive at a replacement cost figure. Using more than one method will give you a sounder basis for buying adequate coverage.

One of the easiest ways to determine replacement cost is to ask your insurance agent; most companies provide their agents with regularly updated cost tables. You can also make a calculation yourself, using charts available from insurance companies (these, however, are usually geared more toward homes with standard construction features).

Another method is to ask a building contractor to do an evaluation; the fee for this service usually starts at about $50. Or, you can hire a professional appraiser, whose fee is usually in the $150–$300 range. If you hire an appraiser, make it clear that you want the appraisal for insurance, not to price your home for sale.

To further protect yourself, take color photos of your house, garage, and outdoor improvements, as well as trees and shrubbery. Such photos can serve as backup to claims you file, because they provide a record of the condition of your property before damage occurred.

Your Personal Property An inventory of your possessions is essential, not only to determine how much insurance you should carry but also to prove any property loss or damage. As an example of how useful an inventory can be, try to list every item in your living room—without looking. You probably can't, and your memory wouldn't be any sharper if, for example, you were trying to catalog your losses after being robbed.

Most insurance companies, as well as many bookstores and stationery stores, have inventory forms or booklets you can use. These listings are divided by room, with space to enter date of purchase, original cost, and current cost for each item. Enter model and serial numbers of items that have them.

Supplement your written inventory with color photographs. For each room, stand in the center and photograph each wall, taking several pictures if necessary. Make sure all articles are clearly visible. Take close-ups of high-value items such as artwork and antiques. Arrange jewelry and collections of small items in groups (if size is important, include a ruler); take crystal and china out of cabinets so they can be clearly seen. Don't forget articles stored in closets and in the attic, garage, and basement. When you've had your pictures processed, note on the back of each the item(s) shown.

As you acquire and dispose of possessions, adjust your inventory and photo file, and make appropriate changes in your scheduled articles endorsement.

As a backup to your inventory and scheduled articles endorsement, save sales receipts for large-ticket items (furniture, appliances, and valuables such as antiques and jewelry). Valuables should be appraised at regular intervals, for appraisals help establish value in case of loss or damage and are especially important if something is no longer sold in regular retail outlets.

STORING RECORDS Cataloging and photographing your possessions does little good if you keep these records in your home, where they can be destroyed by the same peril that damages your property.

Use a safe deposit box to store your inventory, photos of your home and its contents, sales receipts, appraisals, and the name and number of your insurance policy. If a safe deposit box is not used, keep these items in a fireproof container off the premises. Make a duplicate set of the papers and photographs, to be kept, for example, at your office, or with your attorney, accountant, or insurance agent.

Information in this report is current at the time of printing, June 1981, but is subject to change.

Prepared by Bank of America, Box 37128, San Francisco, California 94137

BANK OF AMERICA NT&SA • MEMBER FDIC

AD-290 (6/81)